

## Business Situation

### Preliminary Estimates for the Second Quarter of 2003

ACCORDING to the “preliminary” estimates of the national income and product accounts (NIPAs), U.S. economic growth stepped up more in the second quarter of 2003 than had been indicated in the “advance” estimates released last month.

- Real gross domestic product (GDP) increased 3.1 percent, revised up from 2.4 percent in the advance estimate.<sup>1</sup>
- Gross domestic purchases increased 4.2 percent, revised up from 3.8 percent in the advance estimate.

These revisions mainly reflected the incorporation of new and revised source data for consumer spending and foreign transactions, as described in the section “Revisions.”

Despite the larger-than-usual revision to GDP, the picture shown in the preliminary estimates is quite similar both in broad outline and in many details to that shown in the advance estimates. In both sets of estimates,

- The growth of GDP and gross domestic purchases stepped up considerably in the second quarter. In the first quarter, GDP had increased 1.4 percent, and gross domestic purchases had increased only 0.6 percent (table 1 and chart 1).
- Consumer spending and government spending contributed the most to second-quarter GDP growth (table 2).<sup>2</sup>
- Fixed investment increased, while inventory investment decreased.
- Imports and exports both subtracted from growth in the second quarter.
- Prices increased much less than in the first quarter.
- Real disposable personal income (DPI) accelerated.

1. Quarterly estimates in the NIPAs are expressed at seasonally adjusted annual rates, unless otherwise specified. Quarter-to-quarter dollar changes are differences between these published estimates. Percent changes are calculated from unrounded data and annualized. “Real” estimates are in chained (1996) dollars, and price indexes are chain-type measures.

2. In this article, “consumer spending” is shorthand for the NIPA series “personal consumption expenditures,” and “government spending” is shorthand for “government consumption expenditures and gross investment.” “Inventory investment” is shorthand for “change in private inventories.”

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According to the preliminary estimates,

- Consumer spending, led by purchases of motor vehicles, contributed 2.65 percentage points to second-quarter GDP growth. Government spending contributed 1.53 percentage points, as defense spending posted its biggest increase since the third quarter of 1951.
- Nonresidential fixed investment contributed 0.80 percentage point to growth, as both structures and equipment and software increased. Residential investment contributed 0.21 percentage point to growth, mainly on the strength of brokers’ commis-

**Table 1. Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**

[Seasonally adjusted at annual rates]

|                                                               | Billions of chained (1996) dollars |                               |             |             |              | Percent change from preceding quarter |            |            |            |
|---------------------------------------------------------------|------------------------------------|-------------------------------|-------------|-------------|--------------|---------------------------------------|------------|------------|------------|
|                                                               | Level                              | Change from preceding quarter |             |             |              |                                       |            |            |            |
|                                                               | 2003                               | 2002                          | 2003        |             |              | 2002                                  | 2003       |            |            |
|                                                               | II                                 | III                           | IV          | I           | II           | III                                   | IV         | I          | II         |
| <b>Gross domestic product</b> .....                           | <b>9,625.5</b>                     | <b>93.2</b>                   | <b>32.6</b> | <b>33.8</b> | <b>73.5</b>  | <b>4.0</b>                            | <b>1.4</b> | <b>1.4</b> | <b>3.1</b> |
| Less: Exports of goods and services.....                      | 1,054.9                            | 12.2                          | -16.1       | -3.5        | -3.2         | 4.6                                   | -5.8       | -1.3       | -1.2       |
| Plus: Imports of goods and services.....                      | 1,598.5                            | 12.8                          | 28.1        | -25.4       | 30.1         | 3.3                                   | 7.4        | -6.2       | 7.9        |
| <b>Equals: Gross domestic purchases</b> .....                 | <b>10,123.3</b>                    | <b>93.9</b>                   | <b>70.8</b> | <b>15.2</b> | <b>102.6</b> | <b>3.9</b>                            | <b>2.9</b> | <b>0.6</b> | <b>4.2</b> |
| Less: Change in private inventories..                         | -20.9                              | 13.9                          | 7.0         | -21.0       | -25.7        | .....                                 | .....      | .....      | .....      |
| <b>Equals: Final sales to domestic purchasers</b> .....       | <b>10,128.1</b>                    | <b>80.1</b>                   | <b>64.0</b> | <b>34.6</b> | <b>123.4</b> | <b>3.3</b>                            | <b>2.6</b> | <b>1.4</b> | <b>5.0</b> |
| Personal consumption expenditures.....                        | 6,733.3                            | 67.5                          | 28.0        | 33.0        | 62.4         | 4.2                                   | 1.7        | 2.0        | 3.8        |
| Durable goods.....                                            | 1,061.2                            | 51.7                          | -21.8       | -5.2        | 55.8         | 22.8                                  | -8.2       | -2.0       | 24.1       |
| Nondurable goods.....                                         | 1,984.5                            | 4.9                           | 24.2        | 28.9        | 5.6          | 1.0                                   | 5.1        | 6.1        | 1.1        |
| Services.....                                                 | 3,728.6                            | 20.8                          | 20.0        | 7.9         | 13.7         | 2.3                                   | 2.2        | 0.9        | 1.5        |
| Private fixed investment.....                                 | 1,614.5                            | -1.0                          | 16.9        | -0.6        | 26.6         | -0.3                                  | 4.4        | -0.1       | 6.9        |
| Nonresidential.....                                           | 1,194.8                            | -2.4                          | 6.6         | -13.2       | 22.7         | -0.8                                  | 2.3        | -4.4       | 8.0        |
| Structures.....                                               | 214.7                              | -13.5                         | -5.6        | -1.6        | 3.7          | -21.4                                 | -9.9       | -2.9       | 7.1        |
| Equipment and software.....                                   | 999.4                              | 15.8                          | 14.9        | -12.2       | 19.5         | 6.7                                   | 6.2        | -4.8       | 8.2        |
| Residential.....                                              | 410.0                              | 1.0                           | 8.8         | 9.6         | 4.5          | 1.1                                   | 9.4        | 10.1       | 4.5        |
| Government consumption expenditures and gross investment..... | 1,771.2                            | 12.3                          | 19.4        | 1.7         | 34.5         | 2.9                                   | 4.6        | 0.4        | 8.2        |
| Federal.....                                                  | 669.5                              | 6.4                           | 16.3        | 1.1         | 37.0         | 4.3                                   | 11.0       | 0.7        | 25.5       |
| National defense.....                                         | 450.3                              | 6.7                           | 10.7        | -3.5        | 40.6         | 6.9                                   | 11.0       | -3.3       | 45.9       |
| Nondefense.....                                               | 219.7                              | -0.2                          | 5.6         | 4.5         | -3.1         | -0.3                                  | 11.1       | 8.4        | -5.4       |
| State and local.....                                          | 1,102.6                            | 5.9                           | 3.4         | 0.6         | -2.0         | 2.2                                   | 1.2        | 0.2        | -0.7       |
| <b>Addendum: Final sales of domestic product</b> .....        | <b>9,630.4</b>                     | <b>79.3</b>                   | <b>25.9</b> | <b>53.1</b> | <b>94.2</b>  | <b>3.4</b>                            | <b>1.1</b> | <b>2.3</b> | <b>4.0</b> |

NOTE. Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

sions on house sales. In contrast, inventory investment swung from accumulation to liquidation, subtracting 0.87 percentage point from GDP growth.

- Imports increased, subtracting 1.09 percentage points from GDP growth, and exports decreased, subtracting 0.11 percentage point.
- The price index for gross domestic purchases increased only 0.2 percent in the second quarter after increasing 3.4 percent in the first.
- Real DPI increased 2.8 percent after increasing 2.1 percent.

The preliminary estimates for the second quarter also show the following:

- Final sales of domestic product—GDP less inventory investment—increased 4.0 percent, the biggest increase in a year and a half.
- The production of services increased much more than in the first quarter, and the production of

goods and of structures increased a little less than in the first quarter (table 3).

- Real motor vehicle output decreased somewhat more than in the first quarter, and final sales of computers increased about the same as in the first quarter.
- Personal saving as a percentage of current-dollar DPI decreased to 3.3 percent from 3.6 percent. The national saving rate—gross saving as a percentage of gross national product—decreased from 14.0 percent to 13.9 percent (see NIPA table 5.1)

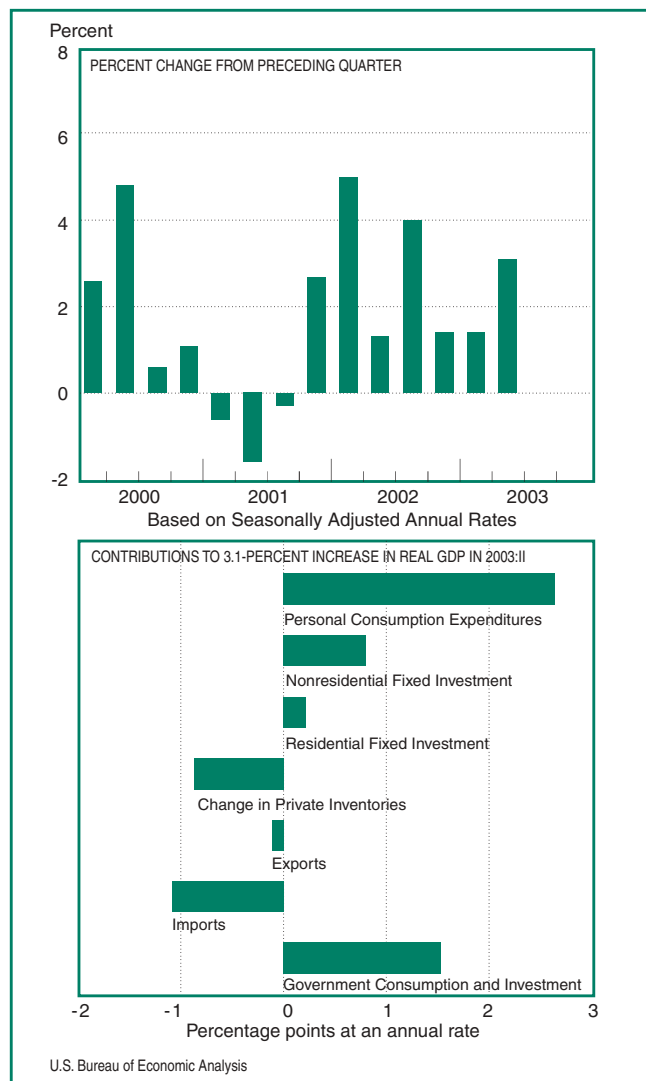
**Table 2. Contributions to Percent Change in Real Gross Domestic Product**

[Seasonally adjusted at annual rates]

|                                                               | 2002  |       | 2003  |       |
|---------------------------------------------------------------|-------|-------|-------|-------|
|                                                               | III   | IV    | I     | II    |
| <b>Percent change at annual rate:</b>                         |       |       |       |       |
| Gross domestic product.....                                   | 4.0   | 1.4   | 1.4   | 3.1   |
| <b>Percentage points at annual rates:</b>                     |       |       |       |       |
| Personal consumption expenditures.....                        | 2.93  | 1.19  | 1.40  | 2.65  |
| Durable goods.....                                            | 1.74  | -0.72 | -0.17 | 1.78  |
| Nondurable goods.....                                         | 0.22  | 1.01  | 1.21  | 0.24  |
| Services.....                                                 | 0.97  | 0.90  | 0.36  | 0.63  |
| Gross private domestic investment.....                        | 0.55  | 0.93  | -0.83 | 0.14  |
| Fixed investment.....                                         | -0.03 | 0.65  | -0.02 | 1.01  |
| Nonresidential.....                                           | -0.08 | 0.24  | -0.47 | 0.80  |
| Structures.....                                               | -0.62 | -0.25 | -0.07 | 0.17  |
| Equipment and software.....                                   | 0.53  | 0.49  | -0.40 | 0.63  |
| Residential.....                                              | 0.05  | 0.41  | 0.45  | 0.21  |
| Change in private inventories.....                            | 0.58  | 0.28  | -0.82 | -0.87 |
| Net exports of goods and services.....                        | -0.01 | -1.59 | 0.78  | -1.20 |
| Exports.....                                                  | 0.45  | -0.59 | -0.13 | -0.11 |
| Goods.....                                                    | 0.28  | -0.82 | 0.13  | -0.13 |
| Services.....                                                 | 0.17  | 0.23  | -0.25 | 0.02  |
| Imports.....                                                  | -0.47 | -1.00 | 0.91  | -1.09 |
| Goods.....                                                    | -0.40 | -0.71 | 0.81  | -1.48 |
| Services.....                                                 | -0.07 | -0.30 | 0.10  | 0.39  |
| Government consumption expenditures and gross investment..... | 0.56  | 0.85  | 0.08  | 1.53  |
| Federal.....                                                  | 0.29  | 0.70  | 0.05  | 1.61  |
| National defense.....                                         | 0.29  | 0.46  | -0.15 | 1.75  |
| Nondefense.....                                               | -0.01 | 0.25  | 0.20  | -0.13 |
| State and local.....                                          | 0.27  | 0.15  | 0.03  | -0.08 |

NOTE: More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

**Chart 1. Real Gross Domestic Product**



**Table 3. Real Gross Domestic Product by Type of Product**

[Seasonally adjusted at annual rates]

|                                                           | Billions of chained (1996) dollars |                               |             |             |             | Percent change from preceding quarter |            |            |            |
|-----------------------------------------------------------|------------------------------------|-------------------------------|-------------|-------------|-------------|---------------------------------------|------------|------------|------------|
|                                                           | Level                              | Change from preceding quarter |             |             |             | Percent change from preceding quarter |            |            |            |
|                                                           |                                    | 2002                          |             | 2003        |             | 2002                                  |            | 2003       |            |
|                                                           | 2003                               | II                            | III         | IV          | I           | II                                    | III        | IV         | I          |
| <b>Gross domestic product.....</b>                        | <b>9,625.5</b>                     | <b>93.2</b>                   | <b>32.6</b> | <b>33.8</b> | <b>73.5</b> | <b>4.0</b>                            | <b>1.4</b> | <b>1.4</b> | <b>3.1</b> |
| Goods.....                                                | 3,778.7                            | 80.4                          | -14.7       | 20.8        | 17.8        | 9.0                                   | -1.6       | 2.2        | 1.9        |
| Services.....                                             | 5,069.5                            | 30.9                          | 38.2        | 7.2         | 47.7        | 2.5                                   | 3.1        | 0.6        | 3.8        |
| Structures.....                                           | 781.9                              | -10.9                         | 4.8         | 6.9         | 6.2         | -5.5                                  | 2.5        | 3.6        | 3.3        |
| <b>Addenda:</b>                                           |                                    |                               |             |             |             |                                       |            |            |            |
| Motor vehicle output.....                                 | 357.4                              | 28.5                          | -13.3       | -1.6        | -3.4        | 37.1                                  | -13.4      | -1.8       | -3.6       |
| Gross domestic product less motor vehicle output.....     | 9,268.8                            | 67.9                          | 44.0        | 35.0        | 76.0        | 3.0                                   | 1.9        | 1.5        | 3.3        |
| Final sales of computers.....                             |                                    |                               |             |             |             | 78.5                                  | 26.7       | 28.2       | 28.0       |
| Gross domestic product less final sales of computers..... |                                    |                               |             |             |             | 3.6                                   | 1.2        | 1.3        | 3.0        |

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals for most items are shown in NIPA table 1.4. Detail on motor vehicle output is shown in NIPA table 8.9B.

## Personal Consumption Expenditures

In the second quarter, real personal consumption expenditures increased about as much as in the two preceding quarters combined (table 4 and chart 2).

Purchases of durable goods turned up sharply, reflecting the pattern set by motor vehicles. Light trucks—pickups, vans, and sport utility vehicles—increased after decreasing, and new autos increased almost as much as in the first quarter. Furniture and household equipment increased vigorously after little change, as purchases of computer equipment accelerated. “Other” durable goods, which include items such

as pleasure boats and motorcycles, also increased more than in the first quarter.

A slowdown in purchases of nondurable goods was mainly accounted for by food, but energy goods and “other” nondurable goods also contributed. (“Other” goods include such items semidurable house furnishings and nonprescription drugs.) Among energy products, most of the falloff was accounted for by gasoline and oil.

Purchases of services stepped up, mainly reflecting upturns in recreation and in “other” services. The

**Table 4. Real Personal Consumption Expenditures**

[Seasonally adjusted at annual rates]

|                                                 | Billions of chained (1996) dollars |             |                               |             |             | Percent change from preceding quarter |            |            |            |
|-------------------------------------------------|------------------------------------|-------------|-------------------------------|-------------|-------------|---------------------------------------|------------|------------|------------|
|                                                 | Level                              |             | Change from preceding quarter |             |             |                                       |            |            |            |
|                                                 |                                    |             |                               |             |             |                                       |            |            |            |
|                                                 | 2003                               | 2002        | 2003                          | 2002        | 2003        | 2002                                  | 2003       | 2002       | 2003       |
|                                                 | II                                 | III         | IV                            | I           | II          | III                                   | IV         | I          | II         |
| <b>Personal consumption expenditures.....</b>   | <b>6,733.3</b>                     | <b>67.5</b> | <b>28.0</b>                   | <b>33.0</b> | <b>62.4</b> | <b>4.2</b>                            | <b>1.7</b> | <b>2.0</b> | <b>3.8</b> |
| Durable goods.....                              | 1,061.2                            | 51.7        | -21.8                         | -5.2        | 55.8        | 22.8                                  | -8.2       | -2.0       | 24.1       |
| Motor vehicles and parts.....                   | 403.0                              | 38.5        | -24.8                         | -7.9        | 28.1        | 48.8                                  | -22.2      | -8.0       | 33.5       |
| Of which:                                       |                                    |             |                               |             |             |                                       |            |            |            |
| New autos.....                                  | 106.7                              | 7.8         | -13.6                         | 3.8         | 2.9         | 32.9                                  | -39.8      | 16.1       | 11.5       |
| New light trucks.....                           | 161.5                              | 26.9        | -13.5                         | -5.8        | 25.2        | 114.1                                 | -30.6      | -15.3      | 97.1       |
| Furniture and household equipment.....          | 466.2                              | 6.2         | 6.1                           | 0.3         | 18.4        | 5.8                                   | 5.7        | 0.2        | 17.6       |
| Other <sup>1</sup> .....                        | 199.2                              | 2.9         | 1.1                           | 3.2         | 7.9         | 6.4                                   | 2.3        | 7.2        | 17.4       |
| Nondurable goods.....                           | 1,984.5                            | 4.9         | 24.2                          | 28.9        | 5.6         | 1.0                                   | 5.1        | 6.1        | 1.1        |
| Food.....                                       | 931.6                              | -1.3        | 12.8                          | 19.0        | 1.9         | -0.6                                  | 5.8        | 8.6        | 0.8        |
| Clothing and shoes.....                         | 369.0                              | 0.2         | 6.5                           | 2.2         | 5.0         | 0.3                                   | 7.5        | 2.5        | 5.6        |
| Gasoline, fuel oil, and other energy goods..... | 156.0                              | 1.0         | 1.4                           | 0.3         | -3.2        | 2.7                                   | 3.6        | 0.7        | -7.8       |
| Other <sup>2</sup> .....                        | 532.1                              | 4.9         | 3.9                           | 7.0         | 3.2         | 3.9                                   | 3.1        | 5.4        | 2.5        |
| Services.....                                   | 3,728.6                            | 20.8        | 20.0                          | 7.9         | 13.7        | 2.3                                   | 2.2        | 0.9        | 1.5        |
| Housing.....                                    | 893.8                              | 3.6         | 3.7                           | 4.1         | 3.9         | 1.7                                   | 1.7        | 1.9        | 1.8        |
| Household operation.....                        | 386.0                              | 1.8         | 5.2                           | -1.4        | -2.5        | 1.9                                   | 5.5        | -1.4       | -2.6       |
| Electricity and gas.....                        | 136.0                              | 2.1         | 7.1                           | -2.1        | -4.7        | 6.3                                   | 22.8       | -5.8       | -12.8      |
| Other household operation.....                  | 250.5                              | -0.4        | -2.1                          | 0.8         | 2.7         | -0.6                                  | -3.4       | 1.4        | 4.3        |
| Transportation.....                             | 248.0                              | -0.5        | 0.3                           | 0.0         | -2.1        | -0.8                                  | 0.5        | 0.1        | -3.4       |
| Medical care.....                               | 1,012.7                            | 9.7         | 7.6                           | 10.1        | 10.6        | 4.1                                   | 3.1        | 4.1        | 4.3        |
| Recreation.....                                 | 241.0                              | 0.0         | 3.2                           | -1.5        | 2.2         | 0.1                                   | 5.4        | -2.5       | 3.8        |
| Other <sup>3</sup> .....                        | 945.1                              | 6.0         | 0.5                           | -3.7        | 1.3         | 2.6                                   | 0.2        | -1.5       | 0.5        |

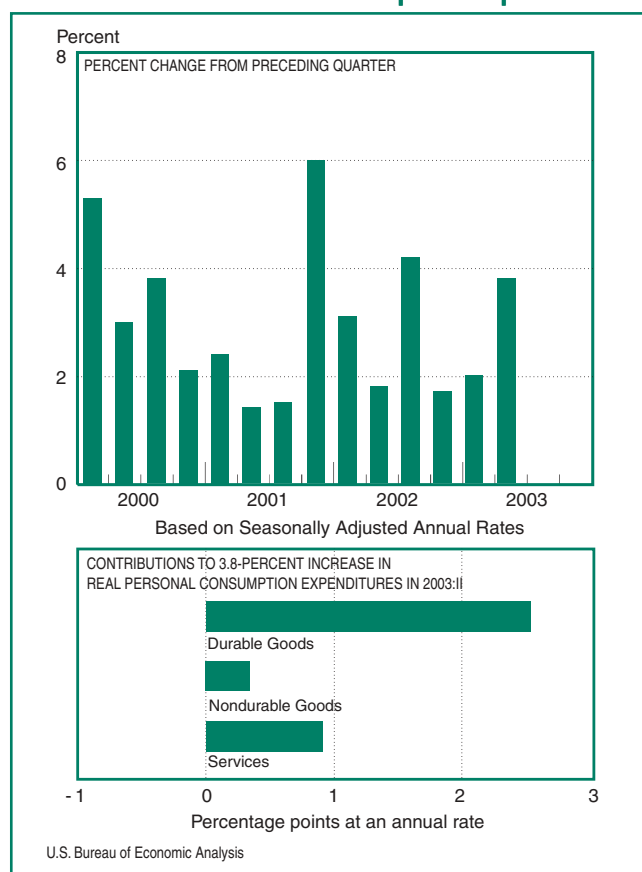
1. Includes jewelry and watches, ophthalmic products and orthopedic equipment, books and maps, bicycles and motorcycles, guns and sporting equipment, photographic equipment, boats, and pleasure aircraft.

2. Includes tobacco, toilet articles, drug preparations and sundries, stationery and writing supplies, toys, film, flowers, cleaning preparations and paper products, semidurable house furnishings, and magazines and newspapers.

3. Includes personal care, personal business, education and research, religious and welfare activities, and net foreign travel.

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 2.3 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

**Chart 2. Real Personal Consumption Expenditures**



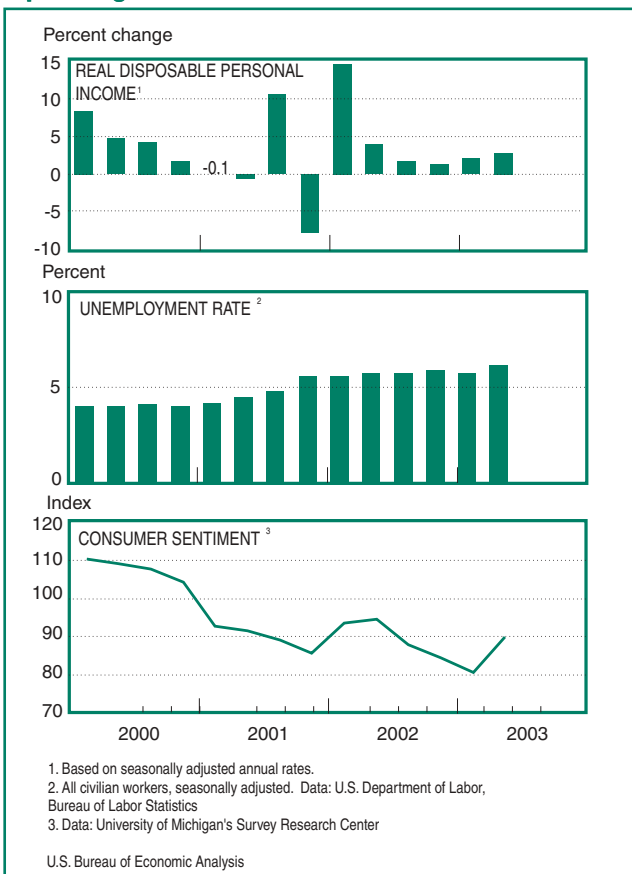
strengthening in recreation services reflected an upturn in movie theater ticket sales and a step-up in “participant amusements,” such as casino gambling. The strengthening in “other” services partly reflected an upturn in brokerage charges and investment counseling.

Factors frequently considered in the analysis of consumer spending were mixed in the second quarter (chart 3). Real DPI accelerated.<sup>3</sup> The Index of Consumer Sentiment (from by the University of Michigan’s Survey Research Center) increased after three consecutive quarterly decreases. However, the unemployment rate also moved higher.

3. DPI is affected by many factors, one of which is mortgage refinancing. In the second quarter, the value of home mortgage originations approached \$1 trillion; between two-thirds and three-fourths of these originations represented refinancing. In the month that a mortgage is refinanced, closing costs lower DPI; in subsequent months, higher rental income (reflecting lower mortgage payments) raises DPI.

Refinancing also allows homeowners to convert some of their home equity into cash. However, in the second quarter of 2003, the share of refinancers doing so was at its lowest level in years. See Freddie Mac, “Share of Refinancers Taking Cash Out of Home Equity Plumets to Lowest Level Since 1985” (news release, July 30, 2003, <[www.freddiemac.com/news/archives/rates/2003/2qupb03.html](http://www.freddiemac.com/news/archives/rates/2003/2qupb03.html)>).

**Chart 3. Selected Factors Affecting Consumer Spending**



## Private Fixed Investment

Real private fixed investment increased in the second quarter after changing little in the first (table 5 and chart 4).

**Nonresidential.** Information-processing equipment and software increased almost twice as much as in the first quarter and more than at any time in the past 3 years; computers accounted for about half of the increase. Transportation equipment decreased less than in the first quarter; the difference mainly reflected an upturn in truck investment. Industrial equipment decreased for the third consecutive quarter; the decrease would have been larger if special industry machinery (which includes equipment for manufacturing semiconductors) had not increased.

**Table 5. Real Private Fixed Investment**

[Seasonally adjusted at annual rates]

|                                                       | Billions of chained (1996) dollars |             |                               |             |             | Percent change from preceding quarter |            |             |            |
|-------------------------------------------------------|------------------------------------|-------------|-------------------------------|-------------|-------------|---------------------------------------|------------|-------------|------------|
|                                                       | Level                              |             | Change from preceding quarter |             |             |                                       |            |             |            |
|                                                       | 2003                               |             | 2002                          |             |             | 2003                                  |            |             |            |
|                                                       | II                                 | III         | IV                            | I           | II          | III                                   | IV         | I           | II         |
| <b>Private fixed investment .....</b>                 | <b>1,614.5</b>                     | <b>-1.0</b> | <b>16.9</b>                   | <b>-0.6</b> | <b>26.6</b> | <b>-0.3</b>                           | <b>4.4</b> | <b>-0.1</b> | <b>6.9</b> |
| Nonresidential .....                                  | 1,194.8                            | -2.4        | 6.6                           | -13.2       | 22.7        | -0.8                                  | 2.3        | -4.4        | 8.0        |
| Structures .....                                      | 214.7                              | -13.5       | -5.6                          | -1.6        | 3.7         | -21.4                                 | -9.9       | -2.9        | 7.1        |
| Nonresidential buildings, including farm .....        | 138.2                              | -9.1        | -1.3                          | -1.3        | 1.7         | -22.2                                 | -3.7       | -3.9        | 5.2        |
| Utilities .....                                       | 41.0                               | -2.8        | -1.0                          | -1.4        | -2.2        | -20.9                                 | -8.8       | -11.9       | -18.9      |
| Mining exploration, shafts, and wells .....           | 32.7                               | -0.4        | -3.4                          | 1.9         | 4.3         | -4.4                                  | -38.3      | 30.8        | 76.7       |
| Other structures .....                                | 4.5                                | -1.3        | -0.4                          | -0.4        | 0.3         | -60.5                                 | -25.4      | -30.5       | 31.0       |
| Equipment and software .....                          | 999.4                              | 15.8        | 14.9                          | -12.2       | 19.5        | 6.7                                   | 6.2        | -4.8        | 8.2        |
| Information processing equipment and software .....   | 621.5                              | 18.2        | 4.5                           | 14.8        | 27.0        | 13.7                                  | 3.2        | 10.6        | 19.5       |
| Computers and peripheral equipment <sup>1</sup> ..... | 357.5                              | .....       | .....                         | .....       | .....       | 44.1                                  | 7.7        | 22.6        | 57.6       |
| Software <sup>1</sup> .....                           | 196.9                              | .....       | .....                         | .....       | .....       | 11.7                                  | 1.8        | 4.9         | 9.3        |
| Other <sup>1</sup> .....                              | 171.4                              | .....       | .....                         | .....       | .....       | 2.8                                   | 2.6        | 12.1        | 15.4       |
| Industrial equipment .....                            | 143.3                              | 2.3         | -2.0                          | -2.0        | -0.6        | 6.4                                   | -5.4       | -5.4        | -1.5       |
| Transportation equipment .....                        | 133.5                              | -1.7        | 9.7                           | -15.6       | -2.3        | -4.6                                  | 30.2       | -35.3       | -6.6       |
| Of which: Motor vehicles .....                        | 118.4                              | 7.2         | 2.5                           | -14.0       | 1.0         | 26.1                                  | 7.8        | -36.1       | 3.2        |
| Other .....                                           | 140.7                              | 0.2         | 2.0                           | -2.7        | 1.1         | 0.5                                   | 5.9        | -7.4        | 3.1        |
| Residential .....                                     | 410.0                              | 1.0         | 8.8                           | 9.6         | 4.5         | 1.1                                   | 9.4        | 10.1        | 4.5        |
| Structures .....                                      | 399.7                              | 1.0         | 8.7                           | 9.5         | 4.1         | 1.1                                   | 9.5        | 10.1        | 4.2        |
| Single-family .....                                   | 214.8                              | 1.4         | 6.7                           | 8.2         | 0.1         | 2.7                                   | 14.3       | 16.9        | 0.0        |
| Multifamily .....                                     | 26.4                               | -0.6        | -1.1                          | 1.9         | -0.6        | -8.3                                  | -16.3      | 34.0        | -8.2       |
| Other structures <sup>2</sup> .....                   | 158.4                              | 0.3         | 3.1                           | -0.9        | 4.9         | 0.8                                   | 8.3        | -2.2        | 13.2       |
| Equipment .....                                       | 10.4                               | 0.0         | 0.1                           | 0.1         | 0.5         | -0.3                                  | 3.0        | 5.3         | 19.0       |

1. "Computers and peripheral equipment" include new items only; "software" excludes software "embedded" or bundled in computers and other equipment. Because of the large price changes that characterize the components of information processing equipment, the nonadditivity of the chained-dollar estimates is substantial, and the relative importance of the components cannot be inferred on the basis of these estimates. Contributions may be taken directly from NIPA table 8.4.

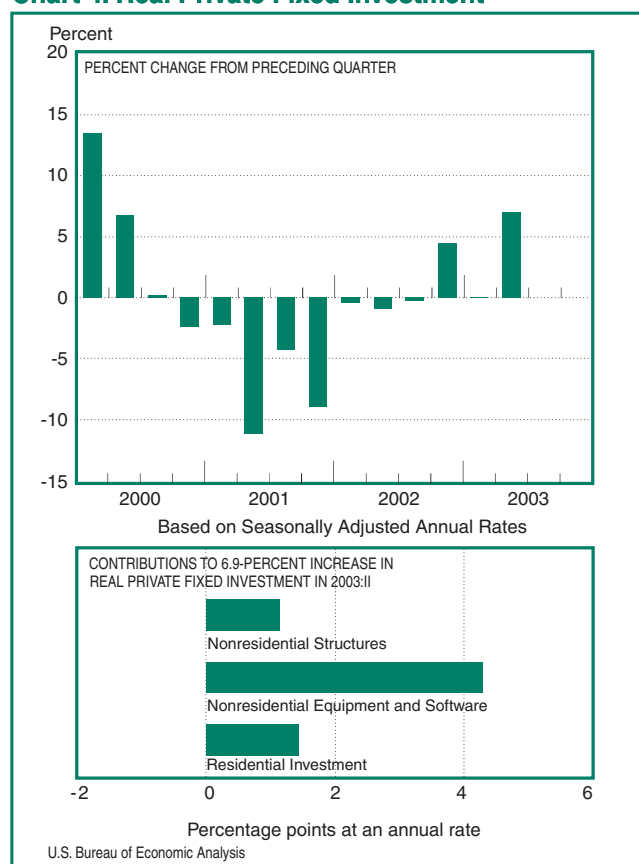
2. Includes home improvements, new manufactured home sales, brokers' commissions on home sales, net purchases of used structures, and other residential structures (which consists primarily of dormitories and of fraternity and sorority houses).

NOTE: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.5 and 8.9B (motor vehicles). Percent changes in major aggregates are shown in NIPA table S.1.

In structures, increases in oil-well exploration and drilling and in nonresidential buildings more than offset a decrease in the construction of utilities. In percentage terms, the oil-well increase was the largest since 1987, though increases almost as large had been posted in 1997 and in 2000. The second-quarter increase in nonresidential buildings was also notable; though modest, it followed 10 consecutive quarterly decreases that had reduced the level of investment in nonresidential buildings almost 30 percent. The decrease in the construction of utilities was the seventh in the past eight quarters.

The capacity utilization rate for manufacturing, mining, and utilities slid lower in the second quarter after showing little, if any, trend over the preceding year and a half. However, other factors

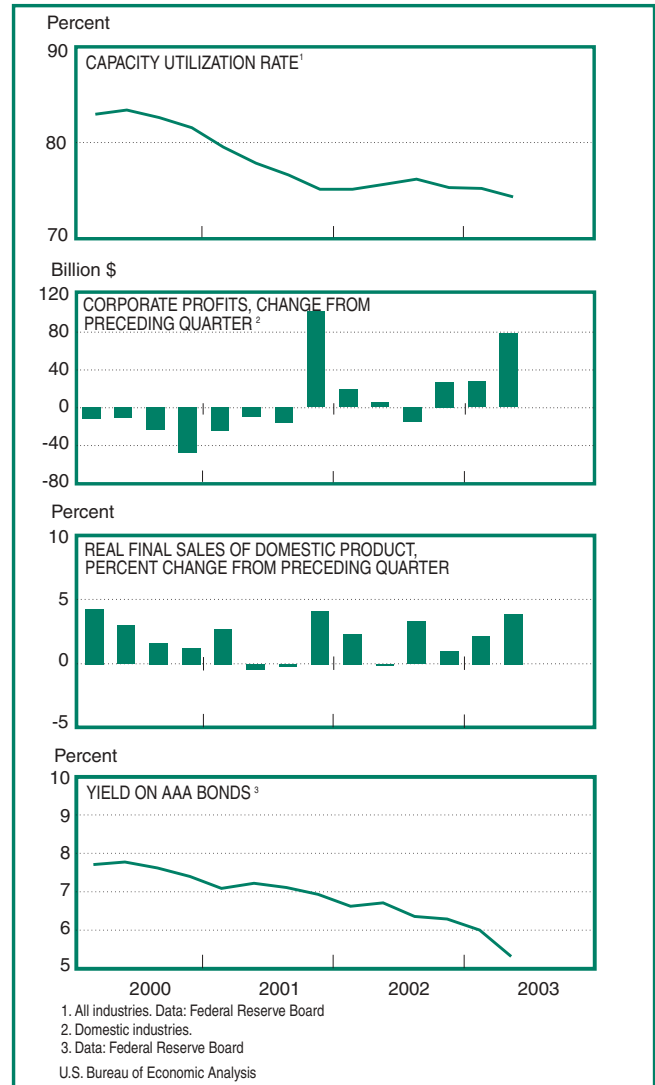
**Chart 4. Real Private Fixed Investment**



that are frequently considered in the analysis of investment spending were generally favorable (chart 5). Long-term interest rates continued to fall in the second quarter, final sales strengthened, and profits improved. Domestic corporations' profits from current production, which increased for the sixth time in seven quarters, were more than 40 percent higher than in the third quarter of 2001 and more than 5 percent higher than their previous high (in the third quarter of 1997).

**Residential.** Real private residential investment increased 4.5 percent, less than half the first-quarter increase (table 5 and chart 4). Single-family construction changed little, and multifamily construction decreased. In contrast, "other" structures increased substantially, reflecting a jump in brokers' commissions.

**Chart 5. Selected Factors Affecting Nonresidential Investment**



## Inventory Investment

Real inventory investment decreased again in the second quarter, as inventory accumulation gave way to inventory liquidation (table 6 and chart 6). In the first quarter, the decrease in inventory investment had reflected a slowdown in the pace of accumulation.

Retail trade inventories increased less than in the first quarter. Inventory accumulation by motor vehicle dealers slowed, and inventories of clothing stores decreased slightly after increasing. These changes were partly offset by a swing from liquidation to accumulation in the inventories of stores that sell home furniture and furnishings, electronics, and appliances.

Manufacturing inventories decreased more in the second quarter than in the first. Inventories of primary metal manufacturers and of food manufacturers decreased after increasing. Inventories of machinery manufacturers also decreased, though considerably less than in the first quarter.

Wholesale trade inventories also decreased more in the second quarter than in the first. Inventories of professional and commercial equipment (including computers) and of drugs and sundries increased less than in the first quarter. Inventories of groceries and related products decreased more than in the first quarter. Inventories of hardware, plumbing, and heating supplies

decreased after increasing. These changes were partly offset by upturns in inventories of petroleum and of farm products.

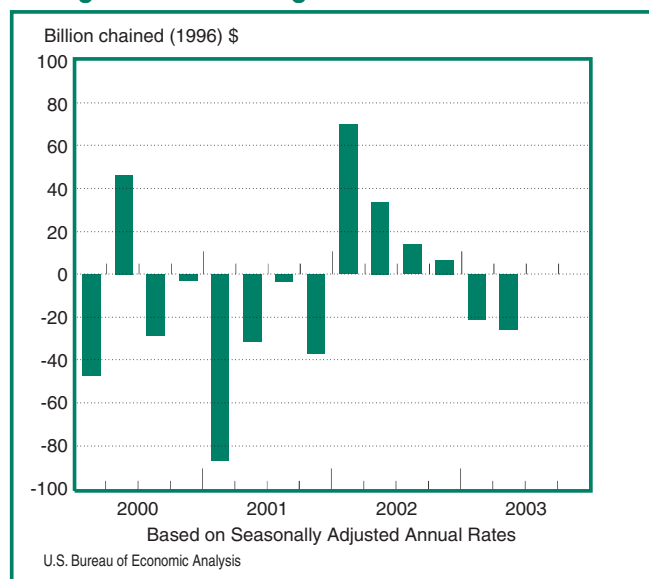
Inventories in the construction, mining, and utilities group decreased less than in the first quarter. Inventories held by utilities were mainly responsible.

Farm inventories decreased in the second quarter after increasing in the first. Livestock inventories turned down, and crop inventories increased a little less than in the first quarter.

The ratio of real private nonfarm inventories to final sales of goods and structures decreased to 3.56 from 3.61 (see NIPA table 5.13B). A ratio that includes all final sales of domestic businesses decreased to 1.98 from 2.01.<sup>4</sup> Both ratios have been trending down since the mid-1970s.

4. Using the ratio that includes all final sales of domestic businesses in the denominator implies that the production of services results in a demand for inventories that is similar to that generated in the production of goods and structures. In contrast, using the "goods and structures" ratio implies that the production of services does not generate demand for inventories. Both implications are extreme. Production of some services may require substantial inventories, while production of other services may not.

**Chart 6. Real Private Inventory Investment:  
Change from Preceding Quarter**



**Table 6. Real Change in Private Inventories, by Industry**

[Billions of chained (1996) dollars; seasonally adjusted at annual rates]

|                                            | Level |       |      |      |       | Change from preceding quarter |      |       |       |
|--------------------------------------------|-------|-------|------|------|-------|-------------------------------|------|-------|-------|
|                                            | 2002  |       |      | 2003 |       | 2002                          |      | 2003  |       |
|                                            | II    | III   | IV   | I    | II    | III                           | IV   | I     | II    |
| <b>Change in private inventories</b> ..... | 4.9   | 18.8  | 25.8 | 4.8  | -20.9 | 13.9                          | 7.0  | -21.0 | -25.7 |
| Farm .....                                 | 0.8   | -2.2  | -0.8 | 1.0  | -1.1  | -3.0                          | 1.4  | 1.8   | -2.1  |
| Construction, mining, and utilities .....  | -1.0  | -2.3  | -1.1 | -9.9 | -5.5  | -1.3                          | 1.2  | -8.8  | 4.4   |
| Manufacturing .....                        | -14.1 | -2.6  | 2.8  | -6.1 | -15.2 | 11.5                          | 5.4  | -8.9  | -9.1  |
| Durable goods industries .....             | -15.0 | -10.3 | 5.5  | -9.8 | -15.8 | 4.7                           | 15.8 | -15.3 | -6.0  |
| Nondurable goods industries .....          | 0.8   | 7.4   | -2.5 | 3.4  | 0.2   | 6.6                           | -9.9 | 5.9   | -3.2  |
| Wholesale trade .....                      | -8.7  | 7.9   | 7.0  | -2.2 | -6.9  | 16.6                          | -0.9 | -9.2  | -4.7  |
| Durable goods industries .....             | -7.7  | 6.5   | 3.8  | 2.1  | -6.4  | 14.2                          | -2.7 | -1.7  | -8.5  |
| Nondurable goods industries .....          | -1.3  | 1.6   | 3.1  | -3.8 | -0.7  | 2.9                           | 1.5  | -6.9  | 3.1   |
| Retail trade .....                         | 22.0  | 15.5  | 15.2 | 21.8 | 6.3   | -6.5                          | -0.3 | 6.6   | -15.5 |
| Of which: Motor vehicle dealers .....      | 15.6  | 4.7   | 7.8  | 16.0 | 5.8   | -10.9                         | 3.1  | 8.2   | -10.2 |
| Other industries <sup>1</sup> .....        | 5.0   | 2.3   | 2.5  | 1.4  | 2.5   | -2.7                          | 0.2  | -1.1  | 1.1   |
| <b>Addenda:</b>                            |       |       |      |      |       |                               |      |       |       |
| Motor vehicles .....                       | 20.1  | 6.3   | 11.7 | 22.7 | 6.7   | -13.8                         | 5.4  | 11.0  | -16.0 |
| Autos .....                                | 10.8  | 6.0   | 6.0  | -5.2 | 5.5   | -4.8                          | 0.0  | -11.2 | 10.7  |
| Trucks .....                               | 8.7   | 0.9   | 5.3  | 21.6 | 1.6   | -7.8                          | 4.4  | 16.3  | -20.0 |

1. Includes inventories held by establishments in the following industries: transportation; communication; finance, insurance, and real estate; and services.

Note. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA tables 5.11B and 8.9B (motor vehicles).



## Exports and Imports

Real exports of goods and services decreased about as much as in the first quarter. Exports of goods turned down, while exports of services turned up (table 7 and chart 7).

In goods, all categories except nonautomotive consumer goods contributed to the second-quarter drop. Exports of foods and industrial supplies posted the biggest decreases; both were roughly 5 percent below their peak levels reached in the third quarter of 2000.

In services, passenger fees and travel decreased less

than in the first quarter, and “other transportation” increased after decreasing.

Real imports of goods and services increased after decreasing (table 7 and chart 8). Imports of goods turned up, while imports of services decreased more than in the first quarter.

In goods, all categories contributed to the second-quarter increase except nonautomotive consumer goods, which were unchanged. Imports of petroleum products, nonautomotive capital goods, and “other”

**Table 7. Real Exports and Imports of Goods and Services**

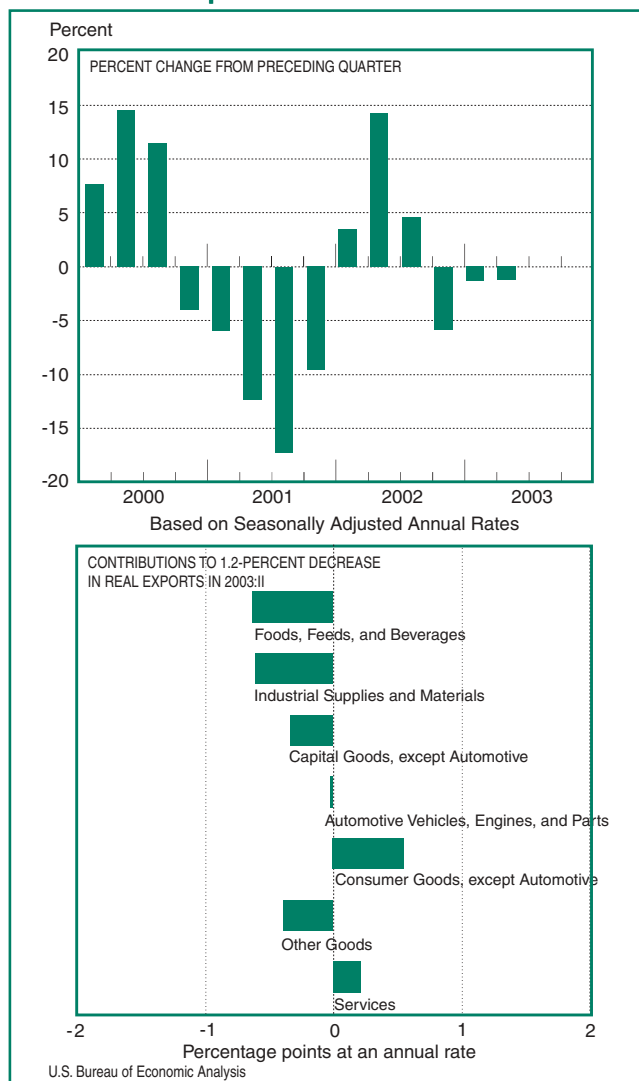
[Seasonally adjusted at annual rates]

|                                                                     | Billions of chained (1996) dollars |             |                               |              |             | Percent change from preceding quarter |             |             |             |  |
|---------------------------------------------------------------------|------------------------------------|-------------|-------------------------------|--------------|-------------|---------------------------------------|-------------|-------------|-------------|--|
|                                                                     | Level                              |             | Change from preceding quarter |              |             | Percent change from preceding quarter |             |             |             |  |
|                                                                     | 2003                               |             | 2002                          |              |             | 2002                                  |             |             |             |  |
|                                                                     | II                                 | III         | IV                            | I            | II          | III                                   | IV          | I           | II          |  |
| <b>Exports of goods and services</b>                                | <b>1,054.9</b>                     | <b>12.2</b> | <b>-16.1</b>                  | <b>-3.5</b>  | <b>-3.2</b> | <b>4.6</b>                            | <b>-5.8</b> | <b>-1.3</b> | <b>-1.2</b> |  |
| Exports of goods <sup>1</sup> .....                                 | 750.1                              | 7.7         | -23.2                         | 3.6          | -3.8        | 4.1                                   | -11.5       | 1.9         | -2.0        |  |
| Foods, feeds, and beverages .....                                   | 59.8                               | -1.9        | 0.2                           | 2.1          | -1.9        | -12.0                                 | 1.6         | 14.3        | -11.5       |  |
| Industrial supplies and materials .....                             | 165.4                              | -2.7        | 0.8                           | 3.1          | -1.6        | -6.4                                  | 2.1         | 7.7         | -3.7        |  |
| Capital goods, except automotive .....                              | 315.7                              | 9.1         | -18.2                         | -1.9         | -1.0        | 11.6                                  | -19.9       | -2.5        | -1.2        |  |
| Automotive vehicles, engines, and parts .....                       | 75.7                               | 1.8         | -5.2                          | 1.1          | -0.1        | 9.6                                   | -23.4       | 5.9         | -0.2        |  |
| Consumer goods, except automotive .....                             | 88.2                               | 1.5         | -0.4                          | 1.1          | 1.5         | 7.2                                   | -2.0        | 5.5         | 6.8         |  |
| Other .....                                                         | 44.1                               | -0.2        | -0.7                          | -1.9         | -1.0        | -1.5                                  | -5.8        | -15.1       | -8.6        |  |
| Exports of services <sup>1</sup> .....                              | 304.1                              | 4.3         | 6.0                           | -6.5         | 0.6         | 5.9                                   | 8.0         | -8.0        | 0.7         |  |
| <b>Imports of goods and services</b>                                | <b>1,598.5</b>                     | <b>12.8</b> | <b>28.1</b>                   | <b>-25.4</b> | <b>30.1</b> | <b>3.3</b>                            | <b>7.4</b>  | <b>-6.2</b> | <b>7.9</b>  |  |
| Imports of goods <sup>1</sup> .....                                 | 1,379.8                            | 11.1        | 20.5                          | -23.4        | 42.4        | 3.4                                   | 6.2         | -6.7        | 13.3        |  |
| Foods, feeds, and beverages .....                                   | 58.0                               | 0.4         | 0.7                           | 1.7          | 0.6         | 3.5                                   | 4.7         | 12.7        | 4.8         |  |
| Industrial supplies and materials, except petroleum and products .. | 169.2                              | 4.0         | 2.8                           | -3.1         | 0.4         | 9.9                                   | 6.7         | -6.9        | 0.9         |  |
| Petroleum and products .....                                        | 97.3                               | -3.1        | 4.7                           | -2.9         | 10.0        | -13.3                                 | 24.1        | -12.6       | 54.5        |  |
| Capital goods, except automotive .....                              | 407.3                              | -3.3        | 2.7                           | -2.7         | 12.4        | -3.2                                  | 2.7         | -2.6        | 13.1        |  |
| Automotive vehicles, engines, and parts .....                       | 205.2                              | 2.1         | -2.5                          | -4.6         | 6.4         | 4.0                                   | -4.8        | -8.7        | 13.5        |  |
| Consumer goods, except automotive .....                             | 348.6                              | 8.0         | 8.8                           | 5.4          | 0.0         | 10.1                                  | 11.0        | 6.5         | 0.0         |  |
| Other .....                                                         | 82.2                               | 2.6         | 1.5                           | -14.3        | 8.4         | 12.6                                  | 7.3         | -50.7       | 53.8        |  |
| Imports of services <sup>1</sup> .....                              | 221.7                              | 1.7         | 7.0                           | -2.3         | -9.0        | 3.1                                   | 13.0        | -4.0        | -14.6       |  |

1. Exports and imports of certain goods, primarily military equipment purchased and sold by the Federal Government, are included in services.

Note. See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 4.4. Percent changes in major aggregates are shown in NIPA table S.1.

**Chart 7. Real Exports**



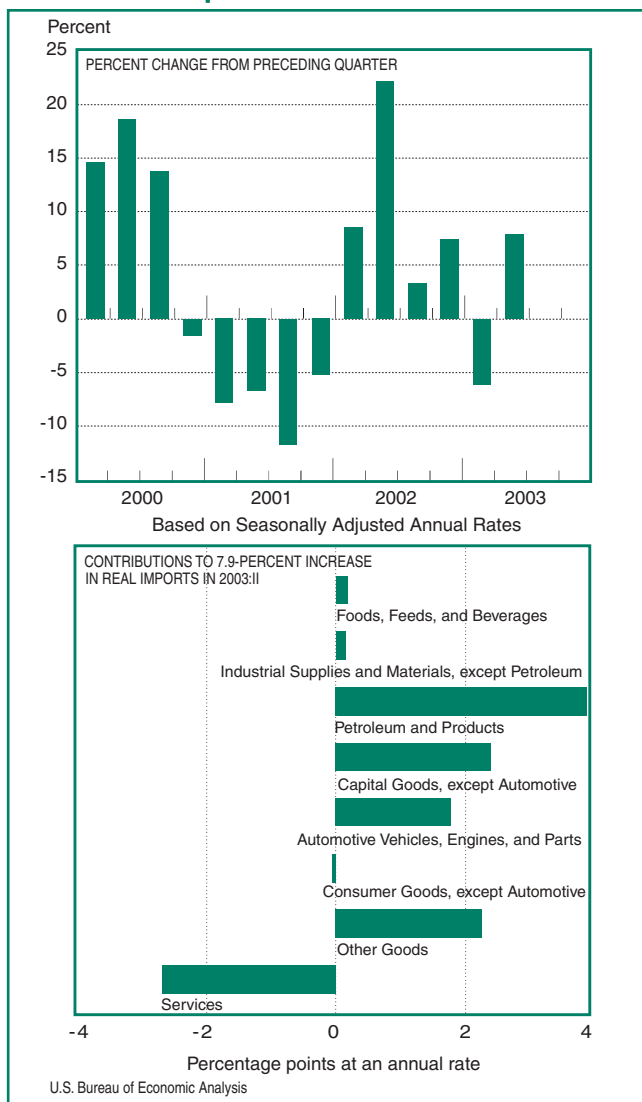


goods contributed the most. Petroleum products and “other” goods both increased more than 50 percent at an annual rate. The surge in petroleum imports was the biggest in 7 years, and the level of petroleum imports was almost 5 percent above its previous peak (reached in the second quarter of 2001). After the most recent increase, imports of capital goods were almost

10 percent higher than in the fourth quarter of 2001, but they were still almost 15 percent lower than in the fourth quarter of 2000. The jump in “other” goods was the biggest in almost 3 years and represented a rebound from a sharp first-quarter drop.

In services, travel accounted for most of the second-quarter decrease.

**Chart 8. Real Imports**



## Government Spending

Government spending increased 8.2 percent in the second quarter after increasing 0.4 percent in the first (table 8 and chart 9). Spending by the Federal Government surged; spending by state and local governments decreased a little after increasing slightly.

At the Federal level, spending on national defense jumped 45.9 percent in the second quarter. As was explained in last month's "Business Situation," most of the increase represented a step-up to a higher level of support services for installations, weapons, and personnel, including support services associated with the U.S. role in securing and reconstructing Iraq. In addition, compensation of military personnel increased substantially for the second quarter in a row.<sup>5</sup>

Federal nondefense spending decreased 5.4 percent, the biggest decrease since the third quarter of 2000; the

5. The increases in compensation mainly reflected increases in the number of military reservists called to active duty; reserve strength peaked at the end of April.

**Table 8. Real Government Consumption Expenditures and Gross Investment**  
[Seasonally adjusted at annual rates]

|                                                                             | Billions of chained (1996) dollars |             |                               |            |             | Percent change from preceding quarter |            |            |            |
|-----------------------------------------------------------------------------|------------------------------------|-------------|-------------------------------|------------|-------------|---------------------------------------|------------|------------|------------|
|                                                                             | Level                              |             | Change from preceding quarter |            |             |                                       |            |            |            |
|                                                                             | 2003                               |             | 2002                          |            | 2003        | 2002                                  |            | 2003       |            |
|                                                                             | II                                 | III         | IV                            | I          | II          | III                                   | IV         | I          | II         |
| <b>Government consumption expenditures and gross investment<sup>1</sup></b> | <b>1,771.2</b>                     | <b>12.3</b> | <b>19.4</b>                   | <b>1.7</b> | <b>34.5</b> | <b>2.9</b>                            | <b>4.6</b> | <b>0.4</b> | <b>8.2</b> |
| Federal                                                                     | 669.5                              | 6.4         | 16.3                          | 1.1        | 37.0        | 4.3                                   | 11.0       | 0.7        | 25.5       |
| National defense                                                            | 450.3                              | 6.7         | 10.7                          | -3.5       | 40.6        | 6.9                                   | 11.0       | -3.3       | 45.9       |
| Consumption expenditures                                                    | 380.9                              | 4.1         | 11.4                          | -4.0       | 35.5        | 5.1                                   | 14.1       | -4.6       | 48.0       |
| Gross investment                                                            | 69.4                               | 2.8         | -1.1                          | 0.8        | 4.7         | 19.6                                  | -6.8       | 5.1        | 32.4       |
| Nondefense                                                                  | 219.7                              | -0.2        | 5.6                           | 4.5        | -3.1        | -0.3                                  | 11.1       | 8.4        | -5.4       |
| Consumption expenditures                                                    | 172.3                              | 1.4         | 4.6                           | 4.6        | -4.8        | 3.4                                   | 11.6       | 11.0       | -10.5      |
| Gross investment                                                            | 48.0                               | -1.9        | 0.9                           | -0.3       | 2.3         | -15.1                                 | 8.7        | -2.8       | 21.9       |
| State and local                                                             | 1,102.6                            | 5.9         | 3.4                           | 0.6        | -2.0        | 2.2                                   | 1.2        | 0.2        | -0.7       |
| Consumption expenditures                                                    | 888.1                              | 3.6         | 3.3                           | 1.6        | 0.2         | 1.7                                   | 1.5        | 0.7        | 0.1        |
| Gross investment                                                            | 214.4                              | 2.3         | 0.1                           | -1.1       | -2.2        | 4.4                                   | 0.2        | -2.1       | -4.0       |

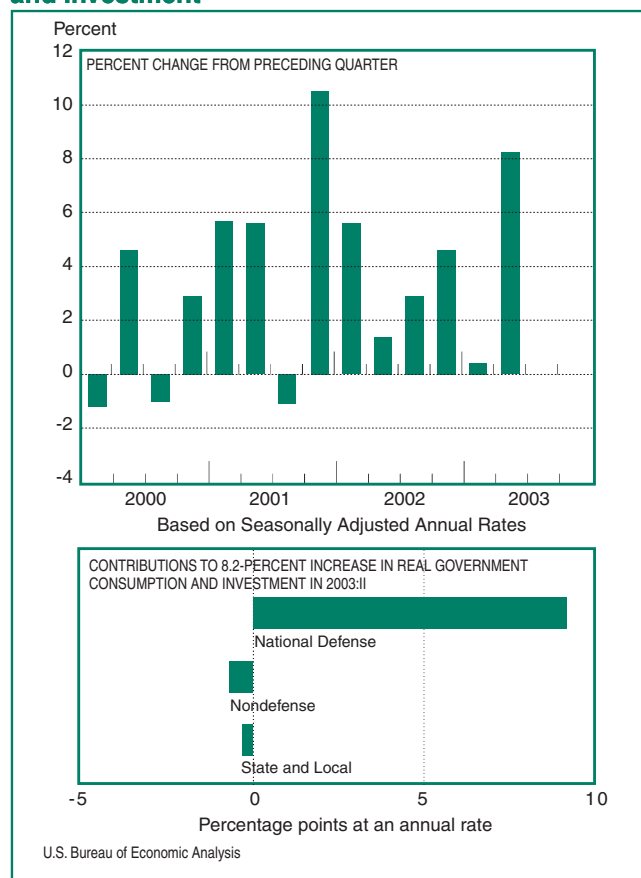
1. Gross government investment consists of general government and government enterprise expenditures for fixed assets; inventory investment is included in government consumption expenditures.

Note: See note to table 1 for an explanation of chained (1996) dollar series. Chained (1996) dollar levels and residuals are shown in NIPA table 3.8. Percent changes in major aggregates are shown in NIPA table S.1.

drop was accounted for by services (other than services rendered by employees and by government-owned fixed capital).

At the state and local level, consumption expenditures changed little, while gross investment decreased. In gross investment, a decrease in structures was only partly offset by an increase in equipment and software.

**Chart 9. Real Government Consumption and Investment**



## Prices

Inflation slowed in the second quarter. The price index for gross domestic purchases, which measures prices of goods and services purchased by U.S. residents, increased only 0.2 percent after increasing 3.4 percent (table 9). Much of the slowdown was accounted for by energy prices; excluding food and energy, prices increased 0.6 percent after increasing 1.8 percent (chart 10). In the first quarter, prices had been boosted by a pay raise for Federal military and civilian personnel.<sup>6</sup>

Prices of goods and services purchased by consumers increased 0.7 percent, 2 percentage points less than

6. In the NIPAs, an increase in the rate of Federal employee compensation is treated as an increase in the price of employee services purchased by the Federal Government. In the first quarter, about 0.2 percentage point of the increase in prices was accounted for by the pay raise.

**Table 9. Price Indexes**

[Percent change at annual rates; based on seasonally adjusted index numbers (1996=100)]

|                                                               | 2002       |            | 2003       |            |
|---------------------------------------------------------------|------------|------------|------------|------------|
|                                                               | III        | IV         | I          | II         |
| <b>Gross domestic product</b> .....                           | <b>1.0</b> | <b>1.8</b> | <b>2.4</b> | <b>0.8</b> |
| Less: Exports of goods and services.....                      | 3.5        | 0.9        | 3.9        | 0.8        |
| Plus: Imports of goods and services.....                      | 4.4        | 0.9        | 11.7       | -3.9       |
| <b>Equals: Gross domestic purchases</b> .....                 | <b>1.2</b> | <b>1.8</b> | <b>3.4</b> | <b>0.2</b> |
| Less: Change in private inventories.....                      | ....       | ....       | ....       | ....       |
| <b>Equals: Final sales to domestic purchasers</b> .....       | <b>1.3</b> | <b>1.8</b> | <b>3.5</b> | <b>0.2</b> |
| Personal consumption expenditures.....                        | 1.7        | 1.8        | 2.7        | 0.7        |
| Durable goods.....                                            | -1.9       | -2.2       | -3.7       | -3.8       |
| Nondurable goods.....                                         | 0.6        | 1.2        | 4.6        | -1.9       |
| Services.....                                                 | 3.0        | 3.0        | 3.1        | 2.9        |
| Private fixed investment.....                                 | -0.9       | 1.8        | 1.9        | -1.3       |
| Nonresidential.....                                           | -1.3       | 0.4        | -0.4       | -1.7       |
| Structures.....                                               | 0.4        | 2.3        | 4.1        | -1.3       |
| Equipment and software.....                                   | -1.9       | -0.2       | -1.8       | -1.8       |
| Residential.....                                              | 0.0        | 5.0        | 7.4        | -0.6       |
| Government consumption expenditures and gross investment..... | 1.4        | 1.6        | 7.9        | -0.5       |
| Federal.....                                                  | 1.3        | 0.3        | 9.8        | 0.8        |
| National defense.....                                         | 1.5        | 1.2        | 9.3        | 0.7        |
| Nondefense.....                                               | 1.0        | -1.2       | 10.9       | 1.1        |
| State and local.....                                          | 1.5        | 2.2        | 6.9        | -1.2       |
| <b>Addenda:</b>                                               |            |            |            |            |
| Gross domestic purchases:                                     |            |            |            |            |
| Food.....                                                     | 0.7        | 1.8        | 1.8        | 2.4        |
| Energy.....                                                   | 3.8        | 8.8        | 52.6       | -13.5      |
| Less food and energy.....                                     | 1.2        | 1.5        | 1.8        | 0.6        |
| Personal consumption expenditures:                            |            |            |            |            |
| Food.....                                                     | 0.9        | 1.8        | 1.7        | 2.4        |
| Energy goods and services <sup>1</sup> .....                  | 3.3        | 7.6        | 46.4       | -8.0       |
| Less food and energy.....                                     | 1.8        | 1.5        | 0.8        | 0.9        |

1. Consists of gasoline, fuel oil, and other energy goods and of electricity and gas.

Note: Percent changes in major aggregates are shown in NIPA table 8.1. Index numbers are shown in tables 7.1, 7.2, and 7.4.

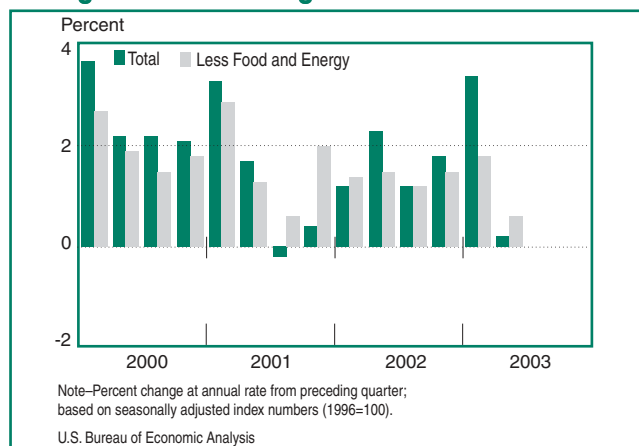
in the first quarter. Food prices increased more than in the first quarter, but energy prices decreased after surging. Excluding the prices of food and energy, prices paid by consumers increased 0.9 percent, about the same as in the first quarter.

Prices paid by government decreased 0.5 percent in the second quarter, as a decrease at the state and local level more than offset an increase at the Federal level. The drop in prices paid by state and local governments, the biggest since the mid-1950s, mainly reflected the fall in energy prices.

Prices of private nonresidential fixed investment decreased for the seventh time in eight quarters. Prices of equipment and software decreased as much as in the first quarter, and prices of structures decreased after increasing.

The GDP price index, which measures the prices paid for goods and services produced in the United States, increased 0.8 percent after increasing 2.4 percent. GDP prices increased more than gross domestic purchases prices because export prices increased while import prices declined. The decline in import prices was dominated by petroleum.

**Chart 10. Gross Domestic Purchases Prices: Change From Preceding Quarter**



## Revisions

The preliminary estimate of a 3.1-percent increase in real GDP in the second quarter is 0.7 percentage point higher than the advance estimate released last month (table 10). In the past 20 years, the average revision, without regard to sign, from the advance estimate to the preliminary estimate was 0.5 percentage point.

The larger-than-usual revision to second-quarter real GDP mainly reflected the incorporation of revised and newly available source data for exports and imports, for consumer spending, and for state and local government spending.

The growth of personal consumption expenditures was revised up 0.5 percentage point, mainly reflecting revised Census Bureau data on retail sales of goods for May and June. The revision to nondurable goods contributed an additional 0.22 percentage point to real GDP growth; the revision to durable goods, 0.10 percentage point.

Export growth was revised up 1.9 percentage points, and import growth was revised down 1.3 percentage points. (Imports are subtracted in the calculation of GDP.) Both revisions reflected the incorporation of newly available Census Bureau data on goods for June, revised data on goods for May, and revised BEA data on services for the quarter. The export revision contributed an additional 0.19 percentage point to real GDP growth; the import revision, 0.17 percentage point.

State and local government spending was revised up 0.8 percentage point, reflecting newly available Census Bureau data on the value of construction put in place for June and revised data for April and May. The revision contributed an additional 0.10 percentage point to real GDP growth.

These revisions were partly offset by a downward revision to inventory investment that subtracted 0.10 percentage point from real GDP growth. The revision reflected benchmark revisions to the Census Bureau's

M3 survey ("Manufacturers' Shipments, Inventories, and Orders"), which were incorporated into the NIPA estimates on a "best-change" basis.

**Table 10. Revisions to Change in Real Gross Domestic Product and Prices, Second Quarter 2003**  
[Seasonally adjusted at annual rates]

|                                                                | Percent change from preceding quarter |                      | Preliminary estimate minus advance estimate |                                    |
|----------------------------------------------------------------|---------------------------------------|----------------------|---------------------------------------------|------------------------------------|
|                                                                | Advance estimate                      | Preliminary estimate | Percentage points                           | Billions of chained (1996) dollars |
| <b>Gross domestic product .....</b>                            | <b>2.4</b>                            | <b>3.1</b>           | <b>0.7</b>                                  | <b>17.4</b>                        |
| Less: Exports .....                                            | -3.1                                  | -1.2                 | 1.9                                         | 5.2                                |
| Goods .....                                                    | -2.6                                  | -2.0                 | 0.6                                         | 1.2                                |
| Services .....                                                 | -4.2                                  | 0.7                  | 4.9                                         | 3.8                                |
| Plus: Imports .....                                            | 9.2                                   | 7.9                  | -1.3                                        | -4.8                               |
| Goods .....                                                    | 15.7                                  | 13.3                 | -2.4                                        | -7.3                               |
| Services .....                                                 | -17.6                                 | -14.6                | 3.0                                         | 1.9                                |
| <b>Equals: Gross domestic purchases .....</b>                  | <b>3.8</b>                            | <b>4.2</b>           | <b>0.4</b>                                  | <b>8.7</b>                         |
| Less: Change in private inventories .....                      | .....                                 | .....                | .....                                       | -3.0                               |
| <b>Equals: Final sales to domestic purchasers .....</b>        | <b>4.6</b>                            | <b>5.0</b>           | <b>0.4</b>                                  | <b>11.2</b>                        |
| Personal consumption expenditures .....                        | 3.3                                   | 3.8                  | 0.5                                         | 7.3                                |
| Durable goods .....                                            | 22.6                                  | 24.1                 | 1.5                                         | 3.3                                |
| Nondurable goods .....                                         | 0.1                                   | 1.1                  | 1.0                                         | 5.3                                |
| Services .....                                                 | 1.5                                   | 1.5                  | 0.0                                         | -0.4                               |
| Private fixed investment .....                                 | 6.6                                   | 6.9                  | 0.3                                         | 1.1                                |
| Nonresidential .....                                           | 6.9                                   | 8.0                  | 1.1                                         | 3.1                                |
| Structures .....                                               | 4.8                                   | 7.1                  | 2.3                                         | 1.2                                |
| Equipment and software .....                                   | 7.5                                   | 8.2                  | 0.7                                         | 1.8                                |
| Residential .....                                              | 6.0                                   | 4.5                  | -1.5                                        | -1.5                               |
| Government consumption expenditures and gross investment ..... | 7.5                                   | 8.2                  | 0.7                                         | 2.8                                |
| Federal .....                                                  | 25.1                                  | 25.5                 | 0.4                                         | 0.6                                |
| National defense .....                                         | 44.1                                  | 45.9                 | 1.8                                         | 1.4                                |
| Nondefense .....                                               | -4.1                                  | -5.4                 | -1.3                                        | -0.7                               |
| State and local .....                                          | -1.5                                  | -0.7                 | 0.8                                         | 2.1                                |
| <b>Addendum:</b>                                               |                                       |                      |                                             |                                    |
| Final sales of domestic product .....                          | 3.2                                   | 4.0                  | 0.8                                         | 19.8                               |
| Gross domestic purchases price index ..                        | 0.3                                   | 0.2                  | -0.1                                        | .....                              |
| GDP price index .....                                          | 1.0                                   | 0.8                  | -0.2                                        | .....                              |

NOTE: The preliminary estimates for the second quarter of 2003 incorporate the following revised or additional major source data that were not available when the advance estimates were prepared.

*Personal consumption expenditures:* Retail sales for May and June (revised), consumers' share of new-car and of new truck purchases for June, average unit value for domestic new autos for June (revised), and brokerage services data for the second quarter.

*Nonresidential fixed investment:* Construction put-in-place for April and May (revised) and June, manufacturers' shipments of machinery and equipment for January through June (revised), and manufacturers' shipments of complete civilian aircraft for May (revised) and June.

*Residential fixed investment:* Construction put-in-place for April and May (revised) and December.

*Change in private inventories:* Manufacturing and trade inventories for January through May (revised) and June.

*Exports and imports of goods and services:* Exports and imports of goods for May (revised) and June.

*Government consumption expenditures and gross investment:* Monthly Treasury Statement detailed data for June and state and local government construction put-in-place for April and May (revised) and June.

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for May and June (revised).

*GDP prices:* Detailed merchandise export and import price indexes for April through June (revised), unit-value index for petroleum imports for May (revised) and June, and housing prices for the second quarter.

## Corporate Profits

Profits from current production increased \$88.3 billion (10.8 percent at a quarterly rate) in the second quarter (table 11).<sup>7</sup> The after-tax measure of current-production profits increased even more—\$92.1 billion (15.9 percent). The bigger increase in the after-tax measure reflects the higher depreciation—and, thus, the lower taxable earnings and the lower tax liability—that resulted from this year's tax act. (The effects of the tax act on profits are described below.)

Profits of domestic nonfinancial corporations increased \$64.6 billion (13.3 percent), mainly reflecting an increase in profits per unit that resulted from bigger declines in unit labor and nonlabor costs than in prices. Profits of domestic financial corporations increased \$14.2 billion (6.4 percent). Profits from the rest of the world increased \$9.6 billion (9.0 percent), as payments by domestic affiliates to their foreign parents decreased, and receipts by domestic parents from their foreign affiliates increased.<sup>8</sup>

Cash flow from current production, a profits-related measure of internally generated funds available for investment, increased \$78.5 billion.<sup>9</sup> The ratio of

cash flow to nonresidential fixed investment, an indicator of the extent to which the current level of investment could be financed by internally generated funds, jumped to 93.2 percent from 87.4 percent in the first quarter. The jump reflects the higher depreciation provided for by the new tax act.

**Change in tax law.** The Jobs and Growth Tax Relief Reconciliation Act of 2003 (signed into law on May 28, 2003) increased the immediate depreciation writeoff from 30 percent to 50 percent for property that was acquired after May 5, 2003, and that was placed in service before January 1, 2005. (Last year, the Job Creation and Worker Assistance Act of 2002 had provided for the immediate 30-percent writeoff of certain investments contracted for after September 10, 2001, and before September 11, 2004.)

The additional depreciation provided for by this year's act is estimated to have increased depreciation expenses in the second quarter by \$75.2 billion (annual rate) and reduced profits before tax (PBT)—which is based on earnings reported on tax returns—by the same amount (table 12). Reflecting the lower level of PBT, profits tax liability was reduced \$18.8 billion, and

7. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," which begins on page D-2) as corporate profits with inventory valuation and capital consumption adjustments.

Percent changes in profits are shown at quarterly, not annual, rates.

**Table 11. Corporate Profits**

[Seasonally adjusted at annual rates]

|                                                                     | Billions of dollars |              |                               |             |             | Percent change (quarterly rate) |            |            |             |
|---------------------------------------------------------------------|---------------------|--------------|-------------------------------|-------------|-------------|---------------------------------|------------|------------|-------------|
|                                                                     | Level               |              | Change from preceding quarter |             |             |                                 |            |            |             |
|                                                                     | 2003                |              | 2002                          |             |             | 2002                            |            |            |             |
|                                                                     | II                  | III          | IV                            | I           | II          | III                             | IV         | I          | II          |
| <b>Profits from current production</b> .....                        | <b>904.8</b>        | <b>-14.0</b> | <b>25.1</b>                   | <b>20.4</b> | <b>88.3</b> | <b>-1.8</b>                     | <b>3.2</b> | <b>2.6</b> | <b>10.8</b> |
| Domestic industries.....                                            | 788.8               | -15.0        | 27.1                          | 28.0        | 78.8        | -2.2                            | 4.1        | 4.1        | 11.1        |
| Financial.....                                                      | 237.7               | -3.4         | 0.3                           | 15.9        | 14.2        | -1.6                            | 0.1        | 7.7        | 6.4         |
| Nonfinancial.....                                                   | 551.1               | -11.7        | 26.8                          | 12.1        | 64.6        | -2.5                            | 6.0        | 2.5        | 13.3        |
| Rest of the world.....                                              | 116.1               | 1.0          | -2.0                          | -7.6        | 9.6         | 0.9                             | -1.8       | -6.6       | 9.0         |
| Receipts (inflows).....                                             | 196.8               | 12.5         | 1.4                           | 5.7         | 3.8         | 7.2                             | 0.8        | 3.1        | 2.0         |
| Payments (outflows).....                                            | 80.8                | 11.4         | 3.6                           | 13.3        | -5.8        | 19.6                            | 5.0        | 18.1       | -6.7        |
| IVA.....                                                            | -1.9                | -9.4         | 6.6                           | -18.4       | 25.0        | .....                           | .....      | .....      | .....       |
| CCAdj.....                                                          | 199.2               | -15.2        | -7.9                          | 5.6         | 83.9        | .....                           | .....      | .....      | .....       |
| Profits before tax.....                                             | 707.5               | 10.6         | 26.4                          | 33.2        | -20.6       | 1.6                             | 3.9        | 4.8        | -2.8        |
| Profits tax liability.....                                          | 234.1               | 1.0          | 7.7                           | 15.4        | -3.7        | 0.5                             | 3.6        | 6.9        | -1.6        |
| Profits after tax.....                                              | 473.4               | 9.5          | 18.7                          | 17.7        | -16.8       | 2.1                             | 4.1        | 3.8        | -3.4        |
| <b>Profits from current production less tax liability</b> .....     | <b>670.7</b>        | <b>-15.0</b> | <b>17.4</b>                   | <b>4.9</b>  | <b>92.1</b> | <b>-2.6</b>                     | <b>3.1</b> | <b>0.9</b> | <b>15.9</b> |
| Cash flow from current production.....                              | 1043.2              | -12.0        | 14.0                          | -4.0        | 78.5        | -1.2                            | 1.5        | -0.4       | 8.1         |
| <b>Unit price, costs, and profits of nonfinancial corporations:</b> | Dollars             |              |                               |             |             |                                 |            |            |             |
| Unit price.....                                                     | 1.037               | -0.001       | 0.002                         | 0.002       | -0.002      | .....                           | .....      | .....      | .....       |
| Unit labor cost.....                                                | 0.673               | -0.001       | -0.001                        | 0.001       | -0.006      | .....                           | .....      | .....      | .....       |
| Unit nonlabor cost.....                                             | 0.263               | 0.002        | 0                             | -0.002      | -0.006      | .....                           | .....      | .....      | .....       |
| Unit profits from current production.....                           | 0.101               | -0.003       | 0.005                         | 0.001       | 0.011       | .....                           | .....      | .....      | .....       |

NOTE: Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment

CCAdj Capital consumption adjustment

**Table 12. Effects of the Jobs and Growth Tax Relief Reconciliation Act of 2003 on Selected Measures of Corporate Profits**

[Seasonally adjusted at annual rates]

|                                                                       | Billions of dollars |       |        |       |       | Percent change <sup>1</sup> |       |
|-----------------------------------------------------------------------|---------------------|-------|--------|-------|-------|-----------------------------|-------|
|                                                                       | Level               |       | Change |       |       |                             |       |
|                                                                       | 2002                |       | 2003   |       |       | 2003                        |       |
|                                                                       | IV                  | I     | II     | I     | II    | I                           | II    |
| Profits before tax.....                                               | 694.9               | 728.1 | 707.5  | 33.2  | -20.6 | 4.8                         | -2.8  |
| Tax effect.....                                                       | 0.0                 | 0.0   | -75.2  | ..... | ..... | .....                       | ..... |
| Excluding tax effect.....                                             | 694.9               | 728.1 | 782.7  | 33.2  | 54.6  | 4.8                         | 7.5   |
| Tax liability.....                                                    | 222.4               | 237.8 | 234.1  | 15.4  | -3.7  | 6.9                         | -1.6  |
| Tax effect.....                                                       | 0.0                 | 0.0   | -18.8  | ..... | ..... | .....                       | ..... |
| Excluding tax effect.....                                             | 222.4               | 237.8 | 252.9  | 15.4  | 15.1  | 6.9                         | 6.3   |
| Profits after tax.....                                                | 472.5               | 490.2 | 473.4  | 17.7  | -16.8 | 3.7                         | -3.4  |
| Tax effect.....                                                       | 0.0                 | 0.0   | -56.4  | ..... | ..... | .....                       | ..... |
| Excluding tax effect.....                                             | 472.5               | 490.2 | 529.8  | 17.7  | 39.6  | 3.7                         | 8.1   |
| Profits from current production <sup>2</sup> .....                    | 796.1               | 816.5 | 904.8  | 20.4  | 88.3  | 2.6                         | 10.8  |
| Tax effect.....                                                       | 0.0                 | 0.0   | 0.0    | ..... | ..... | .....                       | ..... |
| Excluding tax effect.....                                             | 796.1               | 816.5 | 904.8  | 20.4  | 88.3  | 2.6                         | 10.8  |
| Profits from current production less tax liability <sup>2</sup> ..... | 573.7               | 578.6 | 670.7  | 4.9   | 92.1  | 0.9                         | 15.9  |
| Tax effect.....                                                       | 0.0                 | 0.0   | 18.8   | ..... | ..... | .....                       | ..... |
| Excluding tax effect.....                                             | 573.7               | 578.6 | 651.9  | 4.9   | 73.3  | 0.9                         | 12.7  |

1. At quarterly rates.

2. Profits from current production are corporate profits with inventory valuation and capital consumption adjustments.

profits after tax were reduced \$56.4 billion.

Profits from current production were not affected by the act, because unlike PBT, they do not depend on the depreciation-accounting practices used for Federal income tax purposes; instead, they reflect an estimate of depreciation that is based on the current value of fixed capital actually used up in the production process. However, because the act reduced tax liability,

profits from current production *on an after-tax basis* were raised \$18.8 billion.

The capital consumption adjustment (CCAdj) is the difference between the depreciation specified in the tax code and the depreciation that underlies profits from current production; because the act raised tax depreciation \$75.2 billion, the CCAdj increased by the same amount.

## Government Sector

The combined current deficit of the Federal Government and of state and local governments increased \$56.6 billion, to \$398.8 billion, in the second quarter after increasing \$33.2 billion in the first (table 13).<sup>10</sup> The Federal current deficit increased in both quarters, but the increase in the second quarter was much larger than that in the first. The state and local current deficit decreased in the second quarter after increasing in the first.

### Federal

The Federal Government current deficit increased \$108.1 billion in the second quarter after increasing \$18.7 billion in the first. Current receipts decelerated, while current expenditures accelerated sharply.

**Current receipts.** Federal current receipts increased \$6.0 billion in the second quarter after increasing \$9.0 billion in the first. The deceleration was more than accounted for by a downturn in corporate profits tax accruals and a deceleration in contributions for social insurance. Tempering the deceleration in receipts, personal tax and nontax receipts and indirect business tax and nontax accruals turned up.

Corporate profits tax accruals decreased \$4.3 billion after increasing \$13.2 billion. The downturn reflected the effects of the Jobs and Growth Tax Relief Reconciliation Act of 2003, which reduced Federal corporate taxes by \$16.4 billion.

Contributions for social insurance increased \$3.9 billion after increasing \$13.2 billion. The deceleration was partly accounted for by a deceleration in contributions by employers, employees, and the self-employed for social security (old-age, survivors, disability, and health insurance trust funds), which increased \$3.3 billion after a \$7.6 billion increase in the first quarter. In the first quarter, social security contributions were boosted \$2.4 billion by an increase in the maximum taxable wage base. State unemployment insurance contributions also decelerated; contributions in the first quarter were boosted \$3.4 billion by increases in

**Table 13. Government Sector Current Receipts and Expenditures**

[Billions of dollars, seasonally adjusted at annual rates]

|                                                                | Level  |       | Change from preceding quarter |       |        |  |
|----------------------------------------------------------------|--------|-------|-------------------------------|-------|--------|--|
|                                                                | 2003   |       | 2002                          |       | 2003   |  |
|                                                                | II     | III   | IV                            | I     | II     |  |
| Current receipts.....                                          | 2920.3 | -7.3  | 7.3                           | 24.1  | 19.5   |  |
| Current expenditures.....                                      | 3319.1 | 17.2  | 51.0                          | 57.4  | 76.1   |  |
| Current surplus or deficit(-).....                             | -398.8 | -24.5 | -43.8                         | -33.2 | -56.6  |  |
| Social insurance funds .....                                   | 40.3   | -1.6  | -2.1                          | 5.5   | -11.1  |  |
| Other .....                                                    | -439.2 | -22.9 | -41.7                         | -38.7 | -45.6  |  |
| <b>Federal</b>                                                 |        |       |                               |       |        |  |
| Current receipts.....                                          | 1875.8 | -19.6 | -3.3                          | 9.0   | 6.0    |  |
| Personal tax and nontax receipts .....                         | 809.1  | -25.3 | -10.8                         | -17.2 | 5.8    |  |
| Corporate profits tax accruals .....                           | 196.4  | 0.9   | 6.4                           | 13.2  | -4.3   |  |
| Indirect business tax and nontax accruals .....                | 111.9  | 2.2   | -0.9                          | -0.3  | 0.7    |  |
| Contributions for social insurance .....                       | 758.5  | 2.6   | 2.1                           | 13.2  | 3.9    |  |
| Current expenditures .....                                     | 2259.2 | -4.7  | 42.8                          | 27.7  | 114.1  |  |
| Consumption expenditures .....                                 | 664.2  | 8.8   | 19.1                          | 17.7  | 37.6   |  |
| National defense .....                                         | 451.6  | 6.4   | 14.3                          | 5.5   | 42.9   |  |
| Nondefense .....                                               | 212.6  | 2.3   | 4.9                           | 12.1  | -5.3   |  |
| Transfer payments (net).....                                   | 988.3  | 6.5   | 14.4                          | 22.2  | 17.6   |  |
| To persons.....                                                | 970.7  | 7.4   | 9.6                           | 16.7  | 20.0   |  |
| To the rest of the world.....                                  | 17.6   | -0.9  | 4.8                           | 5.6   | -2.5   |  |
| Grants-in-aid to state and local governments.....              | 351.4  | -4.6  | 10.8                          | -2.8  | 38.4   |  |
| Net interest paid .....                                        | 195.0  | -9.1  | -3.7                          | -9.4  | 2.3    |  |
| Subsidies less current surplus of government enterprises ..... | 58.9   | -6.4  | 2.2                           | 1.4   | 15.4   |  |
| Subsidies.....                                                 | 63.8   | -0.5  | 1.3                           | 3.1   | 14.4   |  |
| Of which: Agricultural subsidies .....                         | 28.5   | -0.8  | 1.2                           | 2.8   | 3.7    |  |
| Less: Current surplus of government enterprises.....           | 4.9    | 5.7   | -0.8                          | 1.8   | -1.1   |  |
| Less: Wage accruals less disbursements .....                   | -1.4   | 0.0   | 0.0                           | 1.4   | -2.8   |  |
| Current surplus or deficit (-).....                            | -383.4 | -14.9 | -46.1                         | -18.7 | -108.1 |  |
| Social insurance funds .....                                   | 40.5   | -1.6  | -2.1                          | 5.5   | -11.0  |  |
| Other .....                                                    | -423.8 | -13.3 | -44.0                         | -24.2 | -97.0  |  |
| <b>State and local</b>                                         |        |       |                               |       |        |  |
| Current receipts.....                                          | 1395.8 | 7.8   | 21.3                          | 12.4  | 51.8   |  |
| Personal tax and nontax receipts .....                         | 276.9  | 2.4   | 1.9                           | 4.3   | 3.0    |  |
| Corporate profits tax accruals .....                           | 37.8   | 0.2   | 1.2                           | 2.3   | 0.6    |  |
| Indirect business tax and nontax accruals .....                | 720.2  | 9.6   | 7.3                           | 8.6   | 9.8    |  |
| Contributions for social insurance .....                       | 9.6    | 0.0   | 0.1                           | 0.0   | 0.1    |  |
| Federal grants-in-aid .....                                    | 351.4  | -4.6  | 10.8                          | -2.8  | 38.4   |  |
| Current expenditures .....                                     | 1411.3 | 17.4  | 19.0                          | 26.9  | 0.4    |  |
| Consumption expenditures.....                                  | 1067.8 | 9.0   | 10.5                          | 21.7  | -4.0   |  |
| Transfer payments to persons .....                             | 358.5  | 8.0   | 10.8                          | 4.7   | 4.3    |  |
| Net interest paid .....                                        | -1.8   | 0.0   | 0.1                           | 0.1   | 0.0    |  |
| Less: Dividends received by government.....                    | 0.5    | 0.0   | 0.0                           | 0.0   | 0.0    |  |
| Subsidies less current surplus of government enterprises ..... | -12.8  | 0.4   | -2.4                          | 0.5   | -0.1   |  |
| Subsidies.....                                                 | 0.5    | 1.2   | -2.1                          | 0.6   | 0.3    |  |
| Less: Current surplus of government enterprises.....           | 13.2   | 0.8   | 0.3                           | 0.1   | 0.3    |  |
| Less: Wage accruals less disbursements .....                   | 0.0    | 0.0   | 0.0                           | 0.0   | 0.0    |  |
| Current surplus or deficit (-).....                            | -15.5  | -9.6  | 2.3                           | -14.5 | 51.4   |  |
| Social insurance funds .....                                   | -0.1   | 0.0   | 0.0                           | 0.0   | 0.0    |  |
| Other .....                                                    | -15.4  | -9.7  | 2.3                           | -14.5 | 51.4   |  |
| <b>Addendum:</b>                                               |        |       |                               |       |        |  |
| Net lending or net borrowing (-) <sup>1</sup> .....            | -503.6 | -20.9 | -47.2                         | -28.7 | -65.6  |  |
| Federal .....                                                  | -420.3 | -10.5 | -47.1                         | -9.7  | -129.9 |  |
| State and local .....                                          | -83.3  | -10.4 | -0.1                          | -19.0 | 64.3   |  |

10. The combined current surplus or deficit is the NIPA measure of net saving by government. Net saving equals gross saving less consumption of fixed capital. These estimates are shown in NIPA table 5.1.

1. "Net lending or borrowing" is conceptually similar to "net financial investment" in the flow-of-funds accounts prepared by the Board of Governors of the Federal Reserve System. The two measures differ primarily because government net lending or borrowing is estimated from data for transactions, whereas net financial investment is estimated from data for financial assets. There are also small conceptual differences, such as the classification of the Federal Government's railroad retirement and veterans life insurance programs.



the contribution rates and in states' wage bases.

Personal tax and nontax receipts increased \$5.8 billion after decreasing \$17.2 billion. The upturn was attributable to an upturn in personal income taxes. Within personal income taxes, nonwithheld income taxes decreased \$0.9 billion after decreasing \$21.6 billion. The first-quarter decrease reflected the incorporation of new levels for final settlements, refunds, and back taxes that reduced taxes \$21.5 billion. In addition, withheld income taxes accelerated in the second quarter, increasing \$6.6 billion after a \$4.3 billion increase.

Indirect business tax and nontax accruals increased \$0.7 billion after decreasing \$0.3 billion. Nontaxes accelerated, excise taxes decreased less than in the first quarter, and customs duties decelerated.

**Current expenditures.** Current expenditures increased \$114.1 billion in the second quarter after increasing \$27.7 billion in the first. The sharp acceleration was mostly accounted for by an upturn in grants-in-aid to state and local governments and by an acceleration in consumption expenditures, specifically in national defense expenditures. In addition, "subsidies less current surplus of government enterprises" accelerated, and net interest paid turned up. In contrast, "transfer payments (net)" decelerated, and wage accruals less disbursements turned down.

Grants-in-aid to state and local governments increased \$38.4 billion after decreasing \$2.8 billion. Grants for central executive, legislative, and judicial activities accelerated as a result of a new Temporary State Fiscal Relief Fund, which was authorized as part of the Jobs and Growth Tax Relief Reconciliation Act of 2003; payments to states from this fund began in June. Grants for Medicaid, for welfare and social services, for housing and community services, and for health and hospitals (including payments to states for children's health insurance programs) all turned up. Grants for natural resources and for national defense accelerated.

Consumption expenditures increased \$37.6 billion after increasing \$17.7 billion. The acceleration was accounted for by a sharp acceleration in defense consumption expenditures that was partly offset by a downturn in nondefense consumption expenditures.

Defense consumption expenditures increased \$42.9 billion after increasing \$5.5 billion. The acceleration was more than accounted for by services. Within services, "other services" (which includes research and development, weapon support, installation support, and personnel support) turned up, increasing \$34.4 billion after a \$6.2 billion decrease. This upturn was partly offset by a deceleration in compensation of employees, which increased \$4.2 billion after increasing \$11.1 billion; the deceleration was mostly accounted

for by the January 2003 pay raise, which boosted compensation \$4.9 billion in the first quarter. Also within other services, transportation of materials and travel of persons both decelerated; the buildup leading to Operation Iraqi Freedom boosted spending for travel and transportation in the first quarter. Nondurable goods turned down, decreasing \$0.3 billion after a \$0.8 billion increase; the downturn was more than accounted for by a downturn in petroleum products.

Nondefense consumption expenditures turned down, decreasing \$5.3 billion after increasing \$12.1 billion. The downturn was more than accounted for by services. "Other services" turned down, decreasing \$7.1 billion after a \$6.3 billion increase. Compensation of employees decelerated, increasing \$0.5 billion after increasing \$5.8 billion; compensation was boosted \$2.8 billion in the first quarter by the January 2003 pay raise.

"Subsidies less current surplus of government enterprises" increased \$15.4 billion after increasing \$1.4 billion. The acceleration was mostly accounted for by a sharp acceleration in subsidies. This acceleration reflected the impact of the Emergency Wartime Supplemental Appropriations Act of 2003; the legislation authorized increased airline subsidies and increased funding for homeland security that affected maritime subsidies used for port security purposes. As a result, airline subsidies accelerated, increasing \$10.0 billion after increasing \$0.4 billion, and maritime subsidies accelerated, increasing \$1.5 billion after increasing \$0.6 billion. Agricultural subsidies also accelerated, increasing \$3.7 billion after a \$2.8 billion increase. The current surplus of government enterprises turned down, decreasing \$1.1 billion after increasing \$1.8 billion. The downturn was attributable to a downturn in the Postal Service current surplus, which partly reflected the effects of the Postal Civil Service Retirement System Funding Reform Act of 2003 that decreased contributions to the civil service retirement fund.

Net interest paid increased \$2.3 billion after decreasing \$9.4 billion. Gross interest paid turned up, increasing \$2.6 billion after decreasing \$8.4 billion, reflecting an upturn in gross interest paid to persons and business. Gross interest paid to the rest of the world decreased less than in the first quarter. Gross interest received decelerated, increasing \$0.2 billion after increasing \$1.0 billion; gross interest received from the rest of the world decreased more than in the first quarter.

"Transfer payments (net)" decelerated, increasing \$17.6 billion after a \$22.2 billion increase. Transfer payments to the rest of the world turned down, decreasing \$2.5 billion after increasing \$5.6 billion; the



downturn was accounted for by a downturn in government grants. Transfer payments to persons accelerated, increasing \$20.0 billion after increasing \$16.7 billion. Benefit payments for unemployment programs turned up, increasing \$4.1 billion after decreasing \$2.3 billion. Benefit payments for Medicare (hospital and supplemental medical insurance), for food stamps, and for supplemental security income accelerated.

### State and local

The state and local government current deficit decreased \$51.4 billion in the second quarter after increasing \$14.5 billion in the first. Current receipts accelerated, while current expenditures decelerated.

**Current receipts.** State and local government current receipts increased \$51.8 billion in the second quarter after increasing \$12.4 billion in the first. The acceleration was more than accounted for by the upturn in Federal grants-in-aid, which increased \$38.4 billion after decreasing \$2.8 billion. Indirect business tax and nontax receipts increased \$9.8 billion after increasing \$8.6 billion. In contrast, corporate profits tax accruals decelerated, increasing \$0.6 billion after a \$2.3 billion increase. Personal tax and nontax receipts also decelerated, increasing \$3.0 billion after increasing \$4.3 billion.

**Current expenditures.** Current expenditures decelerated, increasing \$0.4 billion in the second quarter after increasing \$26.9 billion in the first. Consumption expenditures turned down, “subsidies less current surplus of government enterprises” turned down slightly, and transfer payments to persons decelerated.

Consumption expenditures decreased \$4.0 billion after increasing \$21.7 billion. The downturn was mostly accounted for by nondurable goods, which decreased \$8.0 billion after increasing \$13.4 billion.

Within nondurable goods, petroleum turned down sharply. Services decelerated, increasing \$3.9 billion after a \$8.0 billion increase.

“Subsidies less current surplus of government enterprises” decreased \$0.1 billion after increasing \$0.5 billion. Transfer payments to persons decelerated, increasing \$4.3 billion after a \$4.7 billion increase; the deceleration was mostly accounted for by a reduction in Medicaid payments.

### Net lending or net borrowing

“Net lending or net borrowing (–)” is an alternative measure of the government fiscal position. Net lending is the financing requirement of the government sector and is derived as the current surplus plus the consumption of fixed capital and “capital transfers received (net)” less gross investment and net purchases of nonproduced assets.<sup>11</sup>

Net borrowing increased \$65.6 billion in the second quarter after increasing \$28.7 billion in the first. Federal Government net borrowing increased \$129.9 billion as the result of the increase in its current deficit. Federal net capital transfers turned down, partly as the result of an upturn in capital transfers to state and local governments. State and local government net borrowing decreased \$64.3 billion as a result of a decrease in its current deficit and an upturn in state and local net capital transfers.

Government gross investment accelerated, increasing \$4.5 billion after increasing \$1.4 billion. Federal Government gross investment accelerated, while state and local government gross investment turned down.

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11. Net lending or net borrowing estimates are shown in NIPA tables 3.1–3.3.